

## Message Text

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INFO AMEMBASSY BONN

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E.O.11652: N/A

TAGS: ECON, GW, WB

SUBJECT: BERLIN ECONOMIC PREDICTIONS FOR 1977

REF: USBER A-0018 JAN 24, 1977

1. SUMMARY: THE GERMAN INSTITUTE FOR ECONOMIC RESEARCH (DIW) PREDICTS BERLIN ECONOMY WILL EXPAND BY 4 PERCENT IN 1977 AS COMPARED TO 3.7 PERCENT DURING 1976. IT FORESEES DECLINE OF ONE PERCENT IN NUMBER OF EMPLOYED AND FURTHER POPULATION DROP OF 30,000. END SUMMARY.

2. IN ITS LATEST REPORT ON BERLIN ECONOMY, DIW PREDICTS THAT BERLIN GROSS SOCIAL PRODUCT WILL RISE BY FOUR PERCENT IN REAL TERMS IN 1977 COMPARED TO 5.5 PERCENT FOR THE FRG. COMPARABLE 1976 FIGURES WERE 3.7 AND 5.6 PERCENT RESPECTIVELY. NEVERTHELESS, BECAUSE OF INCREASING PRODUCTIVITY, DIW EXPECTS THAT NUMBER OF PERSONS EMPLOYED WILL DROP BY ONE PERCENT IN 1977. DURING 1976, INDUSTRIAL EMPLOYMENT FELL BY A FURTHER 5,000 TO 188,600 AT END OF YEAR, A DECLINE WHICH WAS ACCOMPANIED BY 5.4 PERCENT INCREASE IN PRODUCTIVITY IN INDUSTRIAL SECTOR. STRONG INCREASE IN INDUSTRIAL OUTPUT IS EXPECTED IN FIRST HALF OF 1977 BASED ON FAVORABLE NEW ORDERS SITUATION AND SHOULD BE ACCOMPANIED BY STABILIZATION OF INDUSTRIAL EMPLOYMENT  
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LEVEL.

3. DIW IS NOT OPTIMISTIC ABOUT BERLIN INVESTMENT IN 1977, EXPECTING CONSTRUCTION INVESTMENT TO DECLINE BY AT LEAST FIVE PERCENT AND EQUIPMENT INVESTMENT LEVEL TO REMAIN UNCHANGED, BOTH IN REAL TERMS. DIW NOTES THAT SEASONALLY ADJUSTED UNEMPLOYMENT COMMENCED TO RISE AGAIN IN FOURTH

QUARTER 1976 WITH FIGURE OF 38,000 AT END OF YEAR. IT SEES UNEMPLOYMENT AS ADVERSELY AFFECTING CITY'S MIGRATION BALANCE, AND EXPECTS THAT POPULATION WILL DECLINE IN 1977 FY FURTHER 30,000 (EXTIMATED 35,000 LOSS IN 1976).

4. DIW REPORT NOTED THAT NEW CONTRACTS ARE COMING IN SLOWER IN BERLIN THAN IN THE FRG AND SUGGESTED THE EXPLANATION IS NOT ONLY TO BE FOUND IN THE STRUCTURE OF THE BERLIN INDUSTRY (CAPITAL GOODS ORIENTED) BUT ALSO IN INADEQUATE COMPETITIVENESS IN CERTAIN AREAS, INFLEXIBILITY AND WEAK INVOLVEMENT OF THE LARGE "MULTI-REGIONAL" ENTERPRISES. DIW ADDED THERE MUST BE A FUNDAMENTAL CHANGE IN ENTREPRENEURIAL BEHAVIOR.

5. COMMENT: STATISTICAL PROJECTIONS IN DIW REPORT ARE ALMOST A CARBON COPY OF 1976 DIW REPORT WHICH WAS CLOSE TO THE MARK. MAIN DIFFERENCE IS IN THE MORE CRITICAL JUDGMENTS ON BEHAVIOR OF BUSINESS LEADERSHIP NOTED ABOVE.

6. THE DROP IN INDUSTRIAL EMPLOYMENT WHICH WAS ACCOMPANIED BY AN INCREASE IN INDUSTRIAL PRODUCTION AND PRODUCTIVITY IN 1976 AND WHICH IS EXPECTED TO BE REPEATED IN 1977 EMPHASIZES THE ROLE OF RIGOROUS RATIONALIZATION MEASURES WHICH BERLIN MANAGEMENT IS IMPLEMENTING IN THE INDUSTRIAL SECTOR. ALTHOUGH THESE PROGRAMS RESULT IN JOB LOSSES AND ARE CAUSING CONSIDERABLE SOCIAL AND CONSEQUENTLY POLITICAL CONCERN, LOCAL BUSINESS LEADERSHIP IS UNITED THAT THEY ARE ESSENTIAL TO MAINTAIN INDUSTRIAL COMPETITIVENESS AND THAT THEY WILL PROVE A LONG TERM ASSET TO

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BERLIN ECONOMY. THE DIW CRITICISM WOULD APPEAR DIRECTED TO THE DIFFERENCE BETWEEN THE FRG AND BERLIN RECORD IN JOB LOSSES AREA WHICH ONCE COULD BE ATTRIBUTED TO THE FACT BERLIN PRODUCTIVITY WAS BELOW FRG LEVELS AND HENCE BERLIN RATIONALIZATION COULD MAKE BOLDER STRIDES THAN IN FRG. AS BERLIN PRODUCTIVITY NOW EXCEEDS FRG LEVELS, GREATER PORTION OF CONTINUED INDUSTRIAL JOB LOSSES WOULD SEEM ATTRIBUTABLE TO INVESTMENT DECISIONS REGARDING EXPANSION OR NEW PRODUCTION WHICH HAVE NOT FAVORED BERLIN. IT IS, OF COURSE, PRECISELY IN THIS AREA THAT PRESENT "BEAUFTRAGTER" PROGRAM PUSHED BY CHANCELLOR SCHMIDT IS TARGETED. GOERGE

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